

Professor M.E. King
Chairman of the Integrated Reporting Committee
South Africa

Via email to ircomments@saica.co.za

11 May 2011

Dear Professor King,

Framework for Integrated Reporting and the Integrated Report

CIMA, founded in 1919, is the world's leading and largest professional body of Management Accountants, with 172,000 members and students operating at the heart of business in 168 countries. CIMA's vision of business sustainability is for companies to fully embrace the profit motive yet at the same time recognise the need to act as good citizens acting in the public interest. Sustainable business policies make good commercial sense as this behaviour is likely to result in the generation of more reliable long term cash flows. Society also needs responsible commercial organisations to generate the tax revenue needed to run public bodies, provide employment for its citizens and to produce the goods and services needed to fuel economic growth. The creation of this shared value should be the focus of integrated reporting.

The phrase 'create and sustain value' is used extensively in the discussion paper to describe what the integrated report should be focused on. However, there does not appear to be a definition of 'value' in this context and we believe that there should be definition of such an important term. Boards of directors are tasked with generating long-term sustainable success for their organisations which in turn creates value for shareholders and society. The definition of value should be based on the 'total economic value of the enterprise' recognising that directors will seek to make decisions that make good business sense.

We welcome the statement that an integrated report is not simply an amalgamation of the financial statements and the sustainability report. CIMA sees the integrated report as a natural extension of the narrative section of the annual report focusing on the key drivers of long-term economic success such as strategy, business model, financial position, operational capabilities, opportunities, risk management and environmental issues to the extent that they will materially impact on the future economic strength of the company. Materiality should not be set, for instance, as a certain percentage of turnover, but rather it will vary from organisation to organisation based on individual circumstances.

We believe that sustainability issues, material to the long-term success of a business, need to be firmly embedded into the decision-making processes within organisations. This is the case in many of the world's leading companies which include requirements for integrating environmental and social factors into the way they plan, design and take investment decisions on new projects. This ensures that sustainable development is automatically integrated within the way they assess overall business performance and in the discussion of strategy and outlook, activities and risks within their annual report to shareholders. In this way there is no "disconnect" between financial and non-financial information. Much like the growth in recognition of the need for risk management disclosures in

recent years; we believe that consideration of relevant sustainability issues will become more commonplace in the near future.

The response to major climatic or natural resource issues such as sea-level, drinking water and fish stocks should, in the first instance, be the responsibility of governments acting internationally. The integrated report of a company should respond to these issues to the extent that the issue or the international response to it has a current or foreseeable direct and material effect on the long-term economic success of the business. Additionally governments may require data on the usage of scarce natural resources to allow effective macro-management of various environmental issues.

We would prefer that the Integrated Report did not become an additional reporting requirement over and above the current need to publish an annual report. Our preferred model would involve an integrated report replacing the narrative section of the annual report in a standalone document containing summary financial statements and only those additional material disclosures necessary for stakeholders to make an informed assessment of the sustainable success of the business model. The detailed notes and disclosures required for compliance with regulatory requirements would be available online with appropriate cross-references from the integrated report.

Our discussions with a range of corporate entities on the proposals in the discussion paper have raised a number of interesting points which we would like to share with the committee.

- Some companies believe that a separate sustainability report ensures that environmental and social issues receive proper attention;
- The nature of sustainability information and data gathering systems which may not be as well developed as those for financial information may delay the publication of the integrated report. This is of concern to companies who are often judged on the promptness of the reporting to the capital markets.
- There is a concern over assurance requirements for sustainability information contained within corporate reports. Companies are striving to improve the integrity of the environmental and social data that is published but it should be recognised that there are inherent limitations to its accuracy and comparability in the absence of commonly accepted standards for such measures. The auditors of the financial statements do not necessarily possess the expertise to provide the necessary level of assurance and, in any case, this additional work would come at increased cost and potentially be part of the timing issue mentioned above.

We understand that a number of stakeholder groups are concerned about a move to mandatory integrated reporting because they feel it might reduce both the depth and breadth of existing CSR reporting. Due to the time constraints and also the raised assurance levels that might be required/expected across all the data, companies may decide to reduce their current voluntary reporting. This would be a disappointing outcome and we believe that wherever possible in the framework flexibility is maintained so as to encourage the development of better practice whilst at the same time establishing a minimum level of acceptable reporting for the less enlightened companies.

CIMA commends the leadership that South Africa is showing in this area and will watch with interest for examples of good practice as the first Integrated Reports are produced later this year.

Yours sincerely



Charles Tilley
Chief Executive